

# CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Porter Bancorp, Inc.(PBI) Louisville, KY

Point of Contact:	C. Bradford Harris	RSSD: (For Bank Holding Companies)	1249712
UST Sequence Number:	60	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	35,000,000	FDIC Certificate Number: (For Depository Institutions)	9314
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	November 21, 2008	City:	Louisville
Date Repaid <sup>1</sup> :	N/A	State:	Kentucky

<sup>1</sup>If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

**What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).**

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

We believe our receipt of CPP funds has positioned us to remain strong and viable during this difficult environment and will allow us to stand ready to provide credit in the future. During 2010, we made new loans of approximately \$300 mil and renewed loans of approximately \$523 mil.

☒ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

In 2010, we had an increase in residential mortgage loans.

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☐ Increase securities purchased (ABS, MBS, etc.).

☐ Make other investments.

☒ Increase reserves for non-performing assets.

Based on our concern about the impact that the prolonged recession would have on the Bank's loan portfolio and underlying collateral, we significantly increased our loan loss reserve during 2010.

☒ Reduce borrowings.

During 2010, we reduced our advances from the Federal Home Loan Bank by approximately \$68 million.

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☒ **Increase charge-offs.**

During 2010, our charge-offs on real estate loans increased as a result of the prolonged recession's effect on our loan portfolio and underlying collateral.

☐ **Purchase another financial institution or purchase assets from another financial institution.**

☐ **Held as non-leveraged increase to total capital.**

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### What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

Our receipt of CPP funds enabled us to maintain a stronger capital position than we would have been in otherwise. We believe that maintaining a strong capital position complements and facilitates our capacity and willingness to lend and bolsters our ability to withstand uncertain market conditions. If we had not received the CPP funds, we may have had to go into the capital markets, which were frozen, to maintain our strong capital position.

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### What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

Our receipt of CPP funds has enabled us to provide more credit than we would have been able to do if we did not receive the capital injection. We were better able to meet the credit needs of creditworthy borrowers by providing credit in a manner consistent with prudent lending practices. In 2010, PBI Bank had total new and renewed loan activity in the approximate amount of \$823 million. We believe this loan growth supports our contention that we are continuing our directives to lend prudently. We plan to continue to prudently pursue all lending opportunities that become available in our markets. We believe our receipt of the CPP funds has positioned us to remain strong and viable during this difficult environment and will allow us to stand ready to provide credit in the future. Our receipt of CPP funds enabled us to maintain a strong capital position. Porter Bancorp has established a reserve of cash for future capital injections into PBI Bank should the need arise due to growth and/or negative effects of the continuing recession on our operations. The FDIC has advised PBI Bank to maintain a capital cushion and a strong loan loss reserves to offset the potential threat to asset quality from a prolonged recession and its effect on our customers' ability to repay their loan obligations. PBI Bank has also significantly increased our loan loss reserve based on a more conservative assessment of our credit risks inherent in the loan portfolio.

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**Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.**

As a result of directives from the Federal Reserve and the FDIC, we have developed and are participating in some "innovative" loan programs to assist our customers and potential buyers of their projects to help unfreeze the slowdown in sales due to the current economic downturn. We believe these programs are demonstrative of our sincere efforts to meet our lending obligations to the markets we serve.